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EXCISE TAXATION IN PORTO RICO.

THE financial experience of Porto Rico under the American flag has been described in some detail by the present writer in another connection.* In the fiscal reconstruction of the island an important part has been played by a system of excise taxation, levied in lieu of the internal revenue taxes of the United States, for the benefit of the insular instead of the federal treasury. The introduction and operation of these excise taxes seem to present features important and instructive enough to warrant an independent account, and this is the purpose of the following pages.

I.

During the Spanish régime excise taxation in Porto Rico consisted of insular stamp taxes on transfers of property, legal instruments, and commercial paper, and local *consumo* taxes, or *octrois*, upon food-stuffs, collected by each of the sixty-six or more municipal districts into which the island was divided, at rates and in categories varying with the financial needs and the local policies of the respective districts. Among the earliest acts of the military government, established upon the transfer of the island to American control on October 18, 1898, was the repeal of the insular stamp taxes and the abolition of municipal *consumo* taxes upon articles of necessary consumption. Like much of the negative legislation of the early military government, this action, taken in accordance with the recommendation of a native "council of secretaries," reflected the humanitarian impulse of the

* "The Finances of Porto Rico," *Political Science Quarterly*, December, 1901.

soldier rather than the reasoned judgment of the administrator. At the time of repeal the insular stamp taxes were in successful operation, yielding considerable revenues without imposing an onerous burden upon any particular class, and were actually less extensive than existent internal revenue taxes on similar transactions in the United States. The voluntary sacrifice of so important a source of insular revenue can only be comprehended in the impression then apparently prevalent, that *derechos reales* were a manner of oppressive "royal dues" inconsonant with the new sovereignty. Similarly, the abolition of the numerous *consumo* taxes on prime necessities fell far short of the benevolent end contemplated. In Porto Rico the economic relations of retail trade are determined by custom rather than by competition; and the sudden removal of *octrois* simply resulted in increased profit to the retailer rather than in reduced cost to the purchaser. The municipal treasuries were depleted, and a minimum benefit was derived by the consumer. It is highly improbable that *consumo* taxation would have been retained in the ultimate financial reorganization of the island; but the sweeping repeal at the beginning of American administration was premature, and simply operated to rob Peter, in the form of the municipal treasuries, without paying Paul, in the guise of the native consumers.

Once repealed, general administrative policy rendered impracticable the reimposition, even temporarily, of *consumo* taxes on necessary food supplies. Existing local *octrois* on alcoholic beverages and cigarettes remained unaffected, and in some instances thereafter these schedules were extended and the rates increased. But such action was unusual and spasmodic. In the main, the municipal districts, deprived of their largest sources of revenue, without substitutes of any kind, were left to drag out an inadequate and insecure fiscal life.

The ruinous hurricane of August 8, 1899, and the con-

sequent occasion for public relief measures, brought the financial necessities of the municipal districts to the front, and the military government sought to provide therefor in General Orders, No. 176, of November 7, 1899, by imposing a series of local license taxes and fees upon vehicles, public conveyances, dogs, placards, pawn-shops, and public entertainments. Of greater interest in the present connection were the imposition, by the same measure, of a stamp excise of three cents per litre upon alcoholic liquors manufactured in Porto Rico, and one of one-tenth of a cent per box on matches manufactured in Porto Rico, subsequently extended (General Orders, No. 187, of November 25, 1899) to all matches imported into the island. The proceeds accruing from these two taxes, which were entirely independent of existent *octrois* and were made payable by the affixture of stamps by manufacturers and importers, were appropriated to the municipal districts to be apportioned quarterly, upon the basis of population, by the insular civil secretary, in whom was vested the administration and enforcement of the taxes.

Social rather than fiscal considerations led to the imposition of an insular excise of two cents on each pound of imported oleomargarine on November 29, 1899 (General Orders, No. 196), and of a similar tax of twenty cents on each imported pack of playing cards, on December 30, 1899 (General Orders, No. 232). These latter taxes were paid by the importer at the custom-house, without the affixture of stamps; and the proceeds accrued directly to the insular treasury.

The excise taxation of the military government — if the heterogeneous imposts described above can be so characterized — is of interest because of its fragmentary, defective quality rather than of its intrinsic importance. Evidently suggested by corresponding features of the internal revenue system of the United States, the four excises stood in no relation either to the financial possibilities or to the

social conditions of Porto Rico. Their administrative enforcement was intrusted to an over-burdened department, — namely, the civil secretary's office; and the results, which even under the most favorable circumstances would have been disappointing, were all the more unsatisfactory. By administrative regulation the tax on alcoholic liquors was made payable by the affixture of stamps to the bottles or vessels wherein sold. No inspection force was provided; and every variety of fraud, ranging from the re-use of the stamps to the entire neglect of the tax, was practised. The district courts of the island were given jurisdiction over excise violations, but the natural delay in Spanish judicial procedure was heightened by administrative neglect in referring cases for prosecution. The general order imposing the excise on matches directed the civil secretary to prescribe a time during which stamps must be affixed to all stocks of matches. This notice was never given; and, in consequence, fraud was freely practised by the declaration thereafter that unstamped matches had been in stock at the time of the passage of the law. The tax on oleomargarine, being reasonable in amount and paid at the ports of entry, was collected without serious difficulty, but yielded an unappreciable amount. The tax of twenty cents on each pack of playing cards was a fiscal impossibility. The playing cards used in Porto Rico cost about five cents per pack, and the excise of twenty cents simply destroyed all legitimate trade therein and put an additional premium on smuggling.

In February–March, 1900, the anxiously awaited Congressional legislation with respect to Porto Rico broadened from the tariff bill originally contemplated into an organic measure, better known as the Foraker Act, establishing civil government in the island. In the ordinary course of events it is probable that the Foraker Act would have extended to Porto Rico the body of internal revenue laws of the United States or a fixed percentage of the rates

of taxation prevailing thereunder. Certain substantial interests in Porto Rico, intent upon at once securing free trade with the United States regardless of the larger social cost, noisily advocated such a course, subject to the condition — implied rather than expressed — that the proceeds should be appropriated in support of the insular government.

To the present writer, then acting under commission of the Secretary of War as special commissioner to revise the laws relating to taxation in Porto Rico, this policy seemed eminently unwise and inexpedient. The United States system of internal revenue taxation presented itself as the result of a gradual development in an economically advanced community. To apply this system in any degree *en bloc* to Porto Rico, where social and economic elements are radically different, appeared certain to result in financial failure and economic friction. It was manifest that excise taxation should play an important part in the ultimate revenue system of Porto Rico, but every consideration of prudence suggested that it should be of a kind suited to the insular environment. The element of efficiency in the system prevailing in the United States invited reproduction in Porto Rico; but the objects taxed, the rates imposed, and the methods of collection should be in conformity with local characteristics.

The foregoing views — conveyed in a formal recommendation of the special commissioner to the military governor — were adopted by General Davis, transmitted to the Secretary of War, and were instrumental in securing the insertion, in the act of Congress establishing civil government, of the provision that the internal revenue laws of the United States should not be extended to Porto Rico, thus leaving the way clear for the ultimate adoption of a system of insular excise taxes.

II.

The establishment of civil government on May 1, 1900, vested the administration of the insular revenue system — and with it the enforcement of the insular excises — in the hands of the newly appointed treasurer. The general orders of the military government were at the same time constituted statutory enactments, and all power to alter, amend, or repeal their provisions conferred upon a prospective insular legislature. No possibility thus existed of correcting the essential defects of the excise taxes until the legislative branch of the civil government could be fully organized. Wider latitude seemed to exist with respect to the administrative regulations issued by the civil secretary; but, in actual practice, these had assumed much of the rigidity of the military legislation, and any essential modification threatened serious disturbance and inconsiderable gain.

Under these conditions it became the definite policy of the civil administration to enforce rigidly the excises as then existing, with a view at least to developing such a degree of popular respect for insular revenue laws as to insure the prompt adoption and successful operation of a rational system of excise taxation whenever this should become practicable. The conspicuous need of the situation was effective field inspection, of which there had been nothing whatever during the military government. Accordingly, one of the first acts of the treasurer under the civil government was the organization of a bureau of internal revenue agents, followed in turn by the division of the island into inspection districts, the designation of eight tax examiners for temporary service in connection with the assessment of insular direct taxes, and the appointment of one internal revenue agent at large for the enforcement of the excise taxes. This agent at large visited all of the merchants and manufacturers in San Juan,

and then, in rapid succession, made similar inspection visits to the two other important cities of the island, Ponce and Mayaguez. This was succeeded by a systematic tour of the island, in which every municipal district of the island was visited, ignorant delinquents were warned of defaults, and indictments, or *expedientes*, were instituted against deliberate defrauders. By the end of July, 1900, the tax assessment rolls of the island were in the main completed, thus permitting the discharge of the tax examiners and the reorganization of the inspection work of the bureau of internal revenue agents. For this purpose the island was divided into four inspection districts, and an internal revenue agent stationed in each, charged primarily with the detection of frauds committed by distillers of rum, practically the only alcoholic production of the island, and by manufacturers of matches in failing to affix revenue stamps to wares shipped from their factories. An official was also stationed at the San Juan custom-house, and charged with the duty of cancelling and affixing revenue stamps to imported beers, wines, liquors, matches, oleomargarine, and playing cards in payment of the respective excises levied thereon. In the sub-ports the deputy collectors of customs, through the courtesy of the collector of customs for Porto Rico, undertook to cancel and affix stamps to wares subject to excise taxation.

Not until the effort was made to secure exact observance of the excise taxes did it become fully apparent how general and extensive was their violation. This was particularly true of the excise on rum, from which the largest revenue might be derived. Rum in Porto Rico is usually shipped from the distillery in hogsheads and demijohns. On arrival at its destination — and every wayside provision booth on the island is a grog-shop — the hogshead or demijohn is decanted into fixed casks, jugs, and other receptacles, which under the old law did not

require to be stamped, and then returned to the distilleries. The original hogsheads and demijohns were often returned with old stamps still affixed, but more frequently with such stamps carefully removed and transmitted in separate enclosure, to be reaffixed to the identical package when refilled. Internal revenue agents captured many sheets of such stamps, old veterans, worn to a frazzle from repeated use. There was no law to fit the case, no obligation on the part of the distiller to destroy cancelled stamps, no offence incurred in removing them from packages for re-use, nor in keeping them in possession with this end in view. The isolated location and rambling construction of the ordinary distillery rendered any satisfactory surveillance of its operations impracticable. The perpetration of fraud was congenial to the petty smartness of the small dealer, and the sympathy of the neighborhood with cheap rum rendered the defrauder reasonably secure from detection. Local officials were not infrequently in direct collusion with fraud, and on one occasion eight hogsheads of rum bearing twice-used stamps were captured while being conveyed late at night to the liquor factory of the municipal judge in a town on the northern coast of the island.

Contempt for the law pervaded every class of the population. The liquor-loving peasant in the rural districts sat up at night soaking the stamps off his bottle of rum to be stuck on the next bottle he bought; and the army officer in charge of the post canteen had resort to the United States District Court to test the propriety of denominating beer an alcoholic beverage. Boys peddled cancelled stamps at an inconsiderable discount from their face value, and, if detected and the stamps confiscated, no provision of the excise law was applicable for their punishment. In certain localities cancelled stamps indeed served as a minor circulating medium, available for re-use until worn to tatters; and specimens thereof were actually

presented for redemption when the operation of the new revenue act led to the recall of the old series of stamps.

Open defiance of the law was not unknown. On several occasions internal revenue agents were mobbed; and in one notable instance two agents were severely clubbed, and one of them put in jail. On another occasion an agent was arrested and accused before the local municipal judge of accepting a bribe from a law-breaker. When the chief of internal revenue agents, promptly sent by the treasurer to investigate the case, arrived in town, he found the alleged bribe-taker closely guarded in his hotel by two municipal policemen; while the mercantile fraternity were busily engaged in plastering internal revenue stamps on liquor packages, the stamps having been hurriedly obtained from the nearest collector of internal revenue. The agent was acquitted at the next term of the district court, it appearing that the evidence against him, as well as the stamps, had been procured for temporary use only.

And yet the limited force of internal revenue agents was not idle, and the results of the inspection was seen in marked increases in the sale of stamps. Several hundred cases of fraud were detected and referred by the treasurer, through the attorney-general, to various district courts for prosecution. The moral benefit of such action was largely reduced because of the delay on the part of the district courts in rendering decisions. Ultimately, most of the influential defrauders were acquitted; and about two-thirds of the remaining accused were found guilty, and fined in small amounts. In the main, evasion and fraud remained undiscovered,—results due in large measure to the structural defects of the excise laws and their accompanying regulations.

In one direction only was conspicuous progress made,—the organization of an inspection force. Under the old régime, tax inspection had been synonymous with extor-

tion and blackmail; and dire consequences had been prophesied upon the organization of the bureau of internal revenue agents. In actual fact the beneficial results obtained more than justified every reasonable expectation. Carefully selected at the outset, the inspection force was gradually sifted and refined until sound traditions had been established and a really remarkable *personnel* evolved. Not many months had elapsed before it had become definitely understood in every part of the island that minute tax inspection was not necessarily identical with bribery and blackmail, and that the contrary assumption as a working hypothesis was dangerous.*

III.

Two distinct problems thus presented themselves in considering the place of excise taxation in the financial reorganization of the island. The first was legislative, and involved the determination of the objects to be taxed and the rates to be imposed. The second was administrative, and concerned the methods of collecting and enforcing the taxes when imposed. The quality of the proposed excises had from the outset been carefully studied in the light of the economic resources and the financial requirements of the island by the bureau of tax law revision, created to continue in the treasury department the work

* This result was in large measure due to the peculiar fitness and efficient service of the person appointed chief of internal revenue agents, and intrusted with the organization and conduct of the force,— Mr. John S. Hord. Originally detailed by Military Governor Davis to aid the special commissioner to revise the laws relating to taxation in Porto Rico, Mr. Hord showed such unusual qualifications that, upon the organization of the treasury department under the civil government, he was promptly placed in charge of the newly established bureau of internal revenue agents. Long residence on the Texas and Mexican frontiers and continued experience in various responsible capacities on both sides of the Rio Grande afforded admirable equipment for the work in Porto Rico. Not only was his service important in organizing the original inspection force; but his influence contributed to shape the new system of excise taxation; and his hand controlled and, fortunately, still controls its administrative enforcement.

begun by the special commissioner to revise the laws relating to taxation.

It seemed clear that the heterogeneous local *consumo* taxes, varying widely in categories and in rates, should be replaced by unified insular excises, some part of the proceeds of which should temporarily accrue to the municipal districts in lieu thereof. Alcoholics and tobacco naturally presented themselves as the most appropriate objects of excise taxation in Porto Rico, being both in harmony with the financial practice of the United States, as represented by the internal revenue system, and with the traditional policy of Porto Rico, as embodied in *consumo* taxation of rum and cigarettes. Both articles offered a safe taxable margin, whether viewed from the standpoint of the producer or of the consumer. Rum, the important alcoholic drink of the island, is the by-product of sugar production; and this industry, of all others, was able to bear high taxation because of the virtual bounty offered by existent and prospective trade relations with the United States. Tariff reductions on trade with the United States offered a similar favoring differential to the tobacco manufacturer, and a reasonable excise threatened neither curtailed nor unprofitable production. On the other hand, the interest of the consumer was not seriously endangered. Excessive rum consumption is a curse of the island, and a possible effect of the excise in reducing the frequency or the strength of the peon's potation was not unwelcome. Manufactured tobacco, cigars, and cigarettes were already selling in Porto Rico at the higher price fixed by the New York market, and would probably be inappreciably affected by moderate insular taxation. Finally, experience had made clear that custom rather than competition determined retail prices in Porto Rico; and it seemed likely that the actual incidence of reasonable excises would be upon the prosperous retail dealer as much as upon the consumer.

In addition to these important revenue-producing items, matches, playing cards, fire-arms and ammunition, oleomargarine, and proprietary medicinal preparations invited reasonable taxation, both for fiscal and for regulative purposes. The documentary taxes of the United States and the success of the old *derechos reales* in Porto Rico suggested light stamp duties on certain legal instruments and commercial papers. For purpose of regulation and administrative control the licensing of dealers in and importers of articles subject to excise taxation seemed desirable.

A schedule of excise taxes, as thus outlined, was included in the general revenue bill submitted to the insular legislature, and emerged as Title II. of the act of the legislative assembly of Porto Rico, approved January 31, 1901, being "An act to provide revenue for the people of Porto Rico and for other purposes." In passage through the legislature the original schedule underwent numerous amendments and modifications, but of minor importance, with two unfortunate exceptions. These were (1) an increase of the excise on oleomargarine to a prohibitive rate, and (2) elimination of the provision imposing a light specific tax in lieu of the excise in the case of petty hand-workers in cigars and cigarettes. As actually passed, the following taxes were imposed:—

SCHEDULE A.

Par. 1.	Rum and bay rum produced in Porto Rico or imported from the United States	\$0.60 per gallon	
	Rum and bay rum imported from foreign countries	1.00	" "
	Other distilled liquors . . . . .	.80	" "
Par. 2.	Adulterated distilled liquors . . . . .	.40	" "
Par. 3.	Wines and beers . . . . .	.15	" "
	Champagnes	1.00	" "
Par. 4.	Adulterated wines and beers . . . . .	.15	" "

Par. 5-8.	Cigars and cigarettes produced in Porto Rico or imported from the United States :	
	Not exceeding three pounds per thousand in weight	\$1.00 per thousand
	Exceeding three pounds per thousand in weight	1.80 " "
	Cigars and cigarettes imported from foreign countries :	
	Not exceeding three pounds per thousand in weight	2.00 " "
	Exceeding three pounds per thousand in weight	3.60 " "
Par. 9.	Manufactured tobacco produced in Porto Rico or imported from the United States . . . . .	.05 " pound
	Manufactured tobacco imported from foreign countries . . . . .	.10 " "
Par. 10.	Playing cards . . . . .	.02 " pack
Par. 11.	Medicinal preparations	5 % ad valorem
Par. 12.	Oleomargarine . . . . .	.10 per pound
Par. 13.	Arms and ammunition	25 % ad valorem
Par. 14.	Matches produced in Porto Rico or imported from the United States . . .	.15 per hundred boxes (100 sticks per box)
	Matches imported from foreign countries,	.30 per hundred boxes (100 sticks per box)

SCHEDULE B.

Par. 1.	Wholesale dealers in distilled spirits . .	\$80.00 per annum
Par. 2.	Wholesale dealers in fermented liquors .	40.00 " "
Par. 3.	Retail liquor dealers :	
	1st class	20.00 " "
	2d "	12.00 " "
	3d "	6.00 " "
Par. 4.	Wholesale dealers in tobacco	40.00 " "
Par. 5.	Retail tobacco dealers :	
	1st class	12.00 " "
	2d "	8.00 " "
	3d "	4.00 " "
Par. 6.	Dealers in arms and ammunition . . .	24.00 " "

SCHEDULE C.

Par. 1.	Bills of lading	\$0.10 " copy
Par. 2.	Entries of imports from the United States,	.50 " "
Par. 3.	Entries of imports from foreign countries,	1.00 " "
Par. 4.	Notarial instruments and documents of record . . . . .	.50 and 1.00 per copy

All the foregoing taxes were made payable by the affixture and cancellation of internal revenue stamps, and the treasurer was authorized "to make such rules and regulations as may be necessary for the affixture and cancelling of such stamps." Manufacturers and importers were required to furnish bond, conditioned on the faithful compliance with the law, which should in no case exceed in amount 50 per cent. of the annual value of their manufactures or importations; and failure to provide such a bond was made punishable by a fine of from \$100 to \$1,000, or to imprisonment from one month to one year. Provision was made for the increase of the corps of internal revenue agents, who were authorized to take oaths and to certify to declarations, and were vested with all the powers possessed by internal revenue agents of the United States treasury department, for the purpose of investigating stocks of goods subject to excise taxation, and to examine books and accounts current relating thereto. Manufacturers and importers who failed to affix and cancel stamps as required by law were liable to a fine of from \$100 to \$1,000, or to be imprisoned from one month to one year; and merchandise on which taxes had not been thus paid was to be confiscated.

Persons found guilty of the offence of forging or counterfeiting internal revenue stamps, or of erasing the marks of cancellation on stamps which had been used, or who sold, bought, or used such counterfeit stamp or stamps from which the cancellation marks had been removed, or who were found in the possession of any such stamps, were liable to a fine not to exceed \$1,000, or to imprisonment for a term not to exceed five years, and, in addition, all articles for the payment of which such stamps were used were confiscated.

The treasurer was authorized to provide collectors of internal revenue and internal revenue stamp agents, appointed for the sale of such stamps, with a sufficient

amount of stamps to supply the needs of manufacturers and importers in each locality. Municipal districts were prohibited from imposing *consumo* taxes other than dealers' license taxes on articles subject to an insular excise; and in lieu thereof the treasurer was directed to apportion monthly among the municipal districts of the island, upon the basis of population, 50 per cent. of the proceeds of the new excise taxes until June 30, 1901, and 15 per cent. thereafter. Articles of domestic manufacture exported to the United States or to other countries were exempt from excise taxation in conformity with rules and regulations to be prescribed by the treasurer.

The estimated yield of the schedules, when fully established, calculated upon the basis of sworn declarations of manufacturers and importers as to actual manufactures and importations for 1900, and as to anticipated activities in 1901, was as follows: * —

Distilled spirits:		
Domestic	\$528,750.00	
Imported	17,100.00	\$545,850.00
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Adulterated spirits		27,950.00
Beer and wine, imported		22,310.00
Cigars, domestic	\$30,000.00	
Cigarettes, domestic	115,000.00	
Manufactures of tobacco	2,500.00	147,500.00
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Playing cards, imported		10.00
Proprietary medicinal preparations, imported		2,050.00
Oleomargarine		850.00
Arms and ammunitions, imported		1,640.00
Matches:		
Domestic	\$10,960.00	
Imported	2,460.00	13,420.00
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Total		\$761,580.00
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On domestic manufactures		\$715,160.00
On imports		46,420.00
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Total		\$761,580.00

* This estimate assumed that underestimates of manufacturers and importers with respect to 1901 would offset the amount of exports exempt from the excise.

SCHEDULE A, manufactures and imports	\$761,580.00
SCHEDULE B, dealers' licenses	60,000.00
SCHEDULE C, documentary	20,000.00
Total	<u>\$841,580.00</u>

IV.

The revenue act fixed the categories and rates of excise taxation, but provided that the treasurer should issue rules and regulations necessary for the operation of the system. The experience of the military government had demonstrated that, no matter how judicious were the essential provisions of the law, the system itself would be doomed to failure unless its administration was suited to peculiar local conditions. In anticipation of such action the most careful preparatory study had been made by the treasury department of the best method of collecting and enforcing the excises. A successful body of administrative regulations seemed to demand the following requisites:—

1. The method of collection and enforcement must be effective, but simple and consistent, and intelligible in its essentials to even the most ignorant tax-payer.

2. Provision must be made for the general assessment of all distillers, cigar, cigarette, and match manufacturers, and importers of taxable articles; and exact report must be required of annual production or importation, stock on hand, daily manufacture and shipment, and excise stamp purchases.

3. The old issue of internal revenue stamps must be withdrawn, and a new series of convenient denominative values substituted therefor.

4. The fraudulent re-use of stamps must be prevented by their actual destruction upon the payment of the excise.

5. A simple method must be devised for the payment in instalments of the license taxes imposed by Schedule B.

6. The enforcement of the system must be vested in an adequate corps of Spanish-speaking American internal revenue agents, susceptible neither to intimidation nor to improper influences.

These several features seemed more likely of attainment by adopting certain administrative features of the Mexican *la ley del timbre* rather than by reproducing the methods of the United States internal revenue system, and by requiring the payment of excise taxes to be evidenced by affixing stamps to accompanying invoices so as to absolutely prevent re-use instead of attaching them to the articles liable to the tax, to be destroyed by the purchaser upon consumption or use.

This conclusion was reached some two months prior to the actual passage of the revenue act by the insular legislature. The interval was devoted to busy preparation for the prompt inauguration of the new system, in anticipation of the likelihood that the excise taxes would go into immediate effect. The four district internal revenue agents then in service were directed to prepare and transmit to the treasurer's office a list of the names and residences of all distillers, match, cigar, and cigarette manufacturers on the island, and of the importers of any of the articles subject to the tax. The agents were also directed to estimate the number of dealers in each municipality within their respective inspection districts liable to the license taxes imposed in Schedule B, and to report the names of all notaries public, owners or agents of ocean-going ships, and of all exporters and importers through whom or by whom documentary taxes imposed in Schedule C should be paid. All of this data was obtained and made available prior to February 1, 1901, in the shape of preliminary assessment rolls and maps showing the location of every distillery and tobacco factory on the island. Each of the four inspection districts was partitioned into three divisions of from three to seven

municipalities to a division, due regard being had in this distribution that the areas and number of tax-payers should be as uniform as possible in the twelve divisions. To recruit the force of internal revenue agents up to a full complement, eight of the best types from among over forty applicants were selected and placed on the waiting list. Upon the passage of the revenue act authorizing the appointment of additional agents, these eight additional men were appointed and detailed to their respective divisions. The corps of internal revenue agents, as thus organized, was composed almost entirely of ex-engineers of the board of public works, who had been engaged in road building in various sections of the island and of ex-non-commissioned officers of the regular army. All were fearless, hardy campaigners, and most had seen military service in Porto Rico or elsewhere.

A new series of internal revenue stamps, consisting of surcharged United States internal revenue documentary stamps, was secured through the courtesy of the United States treasury department in Washington, and preparation made to issue them, in lieu of the crude series then in use, upon the inauguration of the new system. Bonded stamp agents, usually the postmasters, were appointed in all important towns of the island, and steps taken to make available adequate supplies as soon as required.

In the same way a large amount of anticipatory work was done in preparing necessary return blanks, forms, bonds, instructions, and stub invoice and register books designed for use in administering the new system. All such forms as would be unaffected by possible legislative changes were printed, or mimeographed, and stored away for ready use. The forms for the stub invoice and register books were ready, and the proof corrected, two weeks before the act became a law.

Within a few hours after the revenue act had been signed by the governor of Porto Rico on the night of

January 31, 1901, to go into effect as far as the excise taxes were concerned from the date of its passage, the brief of the excise schedules was corrected to agree with the legislative amendments made at the eleventh hour, and inserted in Spanish and English in the *Official Gazette*. The summary of the law for use on the back of invoices was similarly corrected, the stereotypes cast, and the presses in motion, striking off three thousand stub-invoice books and fifteen hundred register books. The old internal revenue agents were called in, and the new agents were appointed, mounted, and equipped. The invoice and register books were stamped with the proper paragraph, assessment, and page numbers taken from the preliminary rolls; and within a week from the time the law went into effect over one-half a ton of books, blanks, and regulations were distributed to the remotest corners of the island, and the entire corps of internal revenue agents was busily engaged in furnishing books to tax-payers and in acquainting them by patient specific instructions with the details of the law. A few weeks later the distribution of license blanks for the payment of taxes imposed by Schedule B was completed; and bonds duly signed and attested, conditioned on the faithful observance of the law, were received from all manufacturers and importers liable for payment of the tax.

V.

The excise taxes of Porto Rico accrue upon the shipment of the articles liable from the factory or upon their withdrawal from the custom-house, and are evidenced by the affixture, in prescribed form, of internal revenue stamps of requisite amount to an invoice accompanying the shipment or withdrawal. For this purpose every manufacturer or importer of an article liable to the excise is provided, at nominal cost, with a stub-invoice book and

a register book, each containing fifty sheets. On the face of each invoice sheet is printed the form of certificate to be signed and of invoice to be filled in by the importer or manufacturer at the time of withdrawal or of shipment, together with full instructions for the guidance of manufacturers, importers, carriers, and consignees. On the back of each sheet are printed the several rates of taxation and essential abstracts from the revenue act.

The invoice sheet contains blank spaces, in which are stamped the schedule and paragraph numbers of the particular article for which the book is used, and the assessment number of the particular tax-payer to whom the book has been issued. The invoice sheets in the initial book issued to a tax-payer are also numbered consecutively from 1 to 50, the second from 51 to 100, and so on, indefinitely. It will thus be seen that no two invoices for goods manufactured in Porto Rico or imported into Porto Rico can bear the same set of paragraph, assessment, and invoice numbers; and no goods liable to the tax can, under penalty of law, be shipped from factories or imported into the island unless an invoice for the same be first filled out on a proper invoice sheet. The insular police force co-operate actively with internal revenue agents in the detection of fraud, the seizure of illicit goods, and the arrest of delinquents.

The invoice proper is separated from the stub by two vertical lines, forming a column of the width of an internal revenue stamp. When an invoice has been filled out and signed by a manufacturer or importer, and an abstract thereof entered on the stub, revenue stamps to the full amount of the excise on such goods are affixed in the vertical column between the invoice and the stub, and are cancelled with the manufacturer's or importer's name and date of shipment from the factory or withdrawal from the custom-house. The invoice is next detached from the stub midway between the two vertical lines, so that each

stamp is destroyed by bi-section, one-half remaining affixed to the invoice and one-half to the stub. The manufacturer's or importer's name and invoice number are branded or marked on each package of goods contained in the invoice, and the stamped invoice itself is transmitted by the carrier with the goods to the consignee. At brief intervals an internal revenue agent visits each manufacturer or importer, takes notes from the invoice stub and the register book as to all shipments made, and then proceeds to collect from the consignees the stamped invoice sheets corresponding to the shipments thus entered. If the consignee lives in another inspection district, the agent of the latter district is informed by a regular card of notification; and he in turn collects the invoice sheet. All invoice sheets, with the mutilated stamps attached, are thus ultimately returned to the bureau of internal revenue to be audited and filed. In the cases of imported goods the stamped invoices are attached to the custom-house entries, which are forwarded from all of the sub-ports to the San Juan custom-house, where the stamped invoices are detached from the entries and also audited and filed in the treasurer's office. The stubs of exhausted invoice books are returned by agents to be filed; and new books, consecutively paged, are furnished tax-payers. By this simple method, revenue stamps once used in payment of excise taxes are cancelled, mutilated beyond all possibility of re-use, and the fragments actually removed from circulation.

In the register book, delivered with each initial invoice book, the manufacturer or importer is required to keep a daily record of his business operations. On one page are entered the stock of goods and the value of revenue stamps on hand at the receipt of the register book. On the opposite page are entered, under proper date and invoice number, the record of each shipment, including the character and value of merchandise, the carrier, destina-

tion, consignee, and the value of revenue stamps affixed to the corresponding invoice. Daily entry is also required of goods manufactured or imported, of the value of stamps purchased, and of the residence of the collector or stamp agent from whom purchased. The register book is balanced at the end of each month; and an exact transcript of the month's transactions, sworn to before the local internal revenue agent, is forwarded to the treasurer's office for filing. Collectors of internal revenue and internal revenue stamp agents are also required to forward monthly itemized statements of all stamps sold, giving in full detail the residence and name of purchaser, date of sale, for what purpose designed, and denominative value of each stamp sold. An efficient system of checks is thus provided, and means afforded of determining with absolute accuracy the amount and source of revenue collected monthly from each particular excise.

The enforcement of the taxes imposed by Schedules B and C — all of which are paid by the affixture and cancellation of revenue stamps — presents no serious difficulties. Documentary taxes are familiar in Porto Rico, and the desire of the person liable to render the document perfectly legal and binding is an effective motive for the payment of the tax. The dealers' license taxes are due in quarterly instalments, and require some greater effort for efficient enforcement. The license blanks are stamped with the respective paragraph and assessment numbers, and are divided into four square spaces to which, successively, on the first day of each quarter, revenue stamps of requisite amounts must be affixed and cancelled. Every dealer liable receives from the revenue agent of his district annually an appropriate license blank, and quarterly an order upon the nearest revenue stamp agent for the necessary stamps. Upon purchasing the stamps, the dealer leaves the order slip; and this is returned by the stamp agent with his monthly report. In the bureau

of internal revenue the returned order slips are checked against detailed reports submitted by the internal revenue agents. Delinquent dealers are thus ascertained, and necessary measures taken to secure compliance with the law. A further check is afforded by the requirement that the license blanks be posted conspicuously, and by the inspection visits, at irregular intervals, of internal revenue agents.

VI.

At this time of writing,—January 1, 1902,—eleven months have passed since the introduction of the new system of excise taxation; and its operation can now be characterized as a conspicuous and unqualified success. The monthly receipts therefrom, classified with respect to (1) rum, (2) cigarettes, cigars, and manufactured tobacco, and (3) other taxes, have been as follows:—

<i>Month.</i>	<i>Rum.</i>	<i>Cigars, etc.</i>	<i>Other Taxes.</i>	<i>Total.</i>
February	\$9,952	\$8,146	\$5,512	\$23,610
March	14,580	13,085	5,763	33,428
April	24,326	16,814	8,540	49,680
May	23,290	19,492	20,364	63,146
June	24,659	19,885	10,006	54,550
July	30,918	18,326	21,581	70,825
August	33,180	20,153	11,507	64,840
September	30,215	22,336	8,938	61,489
October	41,305	20,181	18,636	80,122
November	39,674	19,262	13,882	72,818
December	50,515	20,344	11,894	82,753
Total	\$322,614	\$198,024	\$136,623	\$657,261

During the five months from February 1 to June 30, 1901, the normal yield of the excises was reduced by reason of the existence of large stocks of rum throughout the island, and by the conservative sentiment entertained by the native mind toward a rigid excise administration. The total amount collected during this period was \$224,414, or a monthly average of \$45,083. By the begin-

ning of the present fiscal year,—the period for which the estimates made above * had been prepared,—the important stocks of rum had been practically exhausted, and current purchases were being gradually resumed; the administrative details of the new system had become fully understood, and the penalties of fraudulent violation demonstrated; public sentiment, as embodied in the formal resolutions of commercial organizations and the expressed attitude of political parties, had crystallized in favor of an exact and cheerful compliance with the law; and the economic recovery of the island from the prostration of a disastrous hurricane and the disturbances of a change in monetary standard had begun to restore popular consumption to normal proportions.† During the first six months of the present fiscal year the total amount collected has been \$432,847, or a monthly average of \$72,141. The estimated yield of the excise schedule for the fiscal year ending June 30, 1902, is \$841,580, or a monthly average of \$70,132. Six months constitute an insufficient period for safe prophecy in financial matters as to a full twelvemonth. But, considering the facts at hand and the tendencies now evident, there seems full reason to suppose that, with no disturbing factor or unexpected occurrence, the aggregate estimate for the fiscal year will be realized.

Pari passu with the secure establishment of the excise system and the increased yield therefrom, the percentage cost of assessment, inspection, and collection to the gross revenue derived has declined as follows: February, 10.8 per cent.; March, 9.5 per cent.; April, 5.8 per cent.; May, 5.2 per cent.; June, 7.03 per cent.; July, 4.3 per

* Page 15.

† Thus the excise on rum produced about 35 per cent. more in October than in September; and the much larger part of the \$11,090 increase came from the coffee districts of the island, where this year's crop, now being harvested, is reported to be almost as large, in certain sections at least, as in the years preceding the hurricane.

cent.; August, 4.05 per cent.; September, 5.06 per cent.; October, 4.05 per cent.; November, 3.09 per cent.; December, 3.08 per cent. The exemption of exports from the excise has accented the removal of customs duties on imports into the United States from Porto Rico, and has stimulated an important Porto Rican export trade in the commodities liable to the insular excise. From February 1 to July 25, 1901, when free trade between Porto Rico and the United States went into effect, there were exported from Porto Rico to the United States: rum and bay rum, 11,046 gallons; cigars, 9,483,793; cigarettes, 738,700. From July 25 to October 31 — five weeks more than the preceding period — the corresponding movement was: rum and bay rum, 78,087 gallons; cigars, 19,570,363; cigarettes, 6,576,800.

The qualitative effects of the new system have been no less distinctly successful than its quantitative results. For the first time in the history of Porto Rico a system of taxation is in operation of which evasion, fraud, bribery, and blackmail are not essential parts. The excise regulations of the island are beginning to command something of the same popular respect entertained towards postage and currency laws, and a tonic quality has thus been imparted to the insular administration as a whole. The incidence of the excise taxes has been in large part upon the retail dealer, who, better perhaps than any element in Porto Rico, is able to make an increased contribution to the support of the government. To the limited extent that the consumer has been affected, it is in the direction of luxurious or injurious rather than of necessary consumption. It seems entirely reasonable to state that the system has injured no industry, has curtailed no production, has burdened no consumer, and that its enforcement has been efficient and its acceptance general.

The estimated expenditures of the insular government for the fiscal year ending June 30, 1902, are something

under two million dollars. Excise taxation during this period is expected to contribute \$715,343, exclusive of \$126,237 (being 15 per cent. of the gross receipts) which will be apportioned among the municipal districts. In addition to being the most important source of present revenue, the excise schedule possesses considerable elasticity with respect to future insular requirements. With increased production and growing prosperity the gross receipts will swell progressively. The reorganization of local government will enable the insular treasury to reclaim the quota now appropriated to the municipal districts in lieu of the abolished *consumo* taxes. The excise on beer and other alcoholics imported from the United States can properly be increased to compensate for the import duty removed. The substitution of an ad valorem for a specific excise on cigars, the reduction of the oleo-margarine excise from its present prohibitive point, and the extension of Schedules B and C will tend to improve the system and will be accompanied by favorable financial results. It is doubtful whether the excise on rum, the all-important item in the schedule, has yet reached the maximum revenue rate; and, with the industry once adjusted to new conditions of production, a moderate increase would seem entirely practicable, should occasion therefor exist. Finally, the proportionate cost of enforcing the system will be reduced by conferring upon the insular treasury department the authority to punish minor or initial violations by quick administrative action instead of cumbrous judicial procedure. In all of these particulars, time, experience, and specific conditions will make clear where and when — without any departure from fundamental principles — omission, amendment, and addition are desirable. Until conspicuous unfitness therefor is displayed, full legislative capacity with respect to such matters should remain vested in the insular legislature. The sagacious provisions of the organic act, exempting

Porto Rico from the operation of the United States internal revenue laws, and permitting the adoption of an independent insular excise system, should remain a definite policy in future Congressional legislation.

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